1993-01-01

Equity Bank

Aidan O'Driscoll
Technological University Dublin, Aidan.odriscoll@tudublin.ie

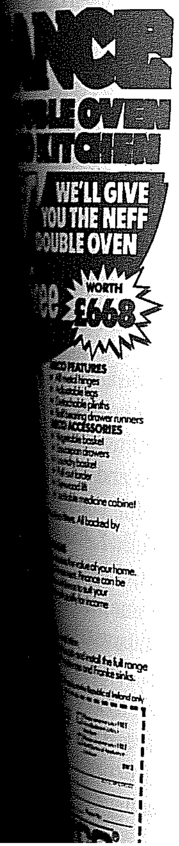
Recommended Citation

O'Driscoll, A.: Equity bank. Managing Marketing by John A. Murray and Aidan O'Driscoll. Dublin, Gill and Macmillan, 1993, pp.163-185.

high-quality timber fitted kitchen
up Lynam's present business
1984 his order book was not as
if it was just a cyclical downturn
were underlying considerations
his business strategy.

kitchen furniture.
in the different market segments
about Lynam's puzzlement
fitted kitchen?
a threshold in its development?

competitors. Consider using a map
to plot these players' current



Case 4

Equity Bank

The financial services market is a wide-ranging and complex amalgam of services, suppliers and buyers of differing scope and size. Over the last two decades, technology, legislation, new competitive modes and customer requirements have dramatically altered this market. In 1989 Equity Bank, a small merchant bank, was acquired by a large UK bank and under a dynamic new management set about expanding its business and exploiting new market opportunities.

Issues: *Product and service definition. Market analysis and segmentation. Niche marketing. Developing and setting in place a new business strategy.*

Over the last two decades, new technology, changing legislation, sharper competitive modes, and not least evolving customer requirements have conspired to change substantially what banks do and the way they do it. The imposing and often impersonal aspect, the cultivated conservatism, the hallowed corridor—what Philip Kotler calls 'the ancient temple effect'—are being replaced by a more friendly, flexible, egalitarian and at times new institution. For instance, *Bancassurance* is the term coined by the French to categorise the institution resulting from the coming together of a bank and a life assurance company. In entering this age of *Bancassurance*, the distinctions between a bank, an investment services house, a leasing company, an insurance company and so on, are breaking down. Such change has prompted many commentators to refer to a financial services revolution. Nor is such change any respecter of national borders or language barriers; it is a worldwide phenomenon.

EQUITY BANK HISTORY

Equity Bank Limited was founded in 1965 by a number of private investors, principally from Limerick. It traded for 25 years providing personal loans to consumer applicants as well as bridging and term loan facilities to individuals and small businesses. It was, in effect, a small secondary or merchant bank. It was based in Dublin with a branch in Limerick.

This case was developed as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Then as now, a bank obtained its banking licence from the Central Bank, which operated in a supervisory role, primarily to ensure that no bank under its supervision contrived to lose or in any way fail to safeguard funds held by the bank on behalf of its depositors. One of the controls imposed by the Central Bank on banks under its supervision is the requirement for minimum levels of shareholders' capital subscribed and fully paid up. This is known as the bank's capital adequacy requirement, which effectively limits the bank's advances (i.e. amounts lent to customers in total) to a precise multiple (usually 12:1) of the bank's paid-up capital or shareholders' funds.

The original Equity Bank was set up with private investors' capital, which automatically meant limited size and scope of operations. Not having access to unlimited funds to lend, the bank was forced to concentrate its lending in smaller-scale advances to a spread of smaller individual and consumer loans. As the banking market became more competitive in the 1970s and 1980s, customer borrowing requirements grew increasingly large and more complex. With a limited capital base and correspondingly restricted capacity to lend, Equity was becoming less relevant as a player in the market and ultimately would have had little future. However, it did have a banking licence.

Since the mid-1970s the Central Bank had become more cautious and rigorous in its regulation of the Irish banking system. This had been prompted by a number of secondary bank failures: for example, Irish Trust Bank in 1974 and Merchant Banking and PMPS, both in the early 1980s. Thus, to acquire a licence to carry out banking activities was becoming more difficult and more expensive in terms of paid-up capital and so on. At the same time during this period, many of the older and longer-established banks, especially in the secondary sector, were unable to keep pace with the change in the marketplace. They did not have the imagination, management skills and financial resources to exploit the possibilities of the newly evolving financial services market. Such institutions began to represent opportunities to outside parties who could acquire them and introduce such skills and resources.

In the late 1980s, John Cranfield, a banker then working as an independent financial consultant in Dublin, saw such opportunity in Equity Bank. Through his contacts with NWS Bank plc in the UK, a chain of events was set in motion which saw the acquisition of Equity Bank by NWS Bank plc in June 1989. NWS Bank plc, in turn, was a subsidiary of Bank of Scotland. Thus Equity had as its ultimate parent Bank of Scotland, the most consistently profitable of those UK clearing banks quoted on the London Stock Exchange. Bank of Scotland's Report and Accounts for 1990 stated: 'In June 1989 NWS Bank acquired Equity Bank Limited, which is a small Dublin-based private bank. It is intended to expand this business as a platform for all NWS Group's activities in the Republic of Ireland.'

NWS Bank plc provided a broad range of financial services to both the private individual and business sectors; it had a special expertise in the area of leasing. It operated some 90 branches across the UK. The bank had its genesis in North West Securities, a company set up in Chester in the 1940s to develop hire purchase facilities for motor dealers in north-west England. The company grew steadily, realising the opportunity of providing credit facilities within the community to a wide spectrum of both commercial and consumer customers. It was acquired as a wholly owned subsidiary in 1958 by Bank of Scotland (see Appendix A).

At the time of its takeover in June 1989, Equity Bank Limited had assets of £15 million and employed 25 people. NWS Bank plc had £2,665 million assets in 1989 (as at 31st December, 1989), a profit before taxation of £38 million, and employed 2,533 personnel. In turn, Bank of Scotland had £18,395 million assets in 1989 (as at 28th February, 1990) and a pre-tax profit of £215 million. Following the takeover, John Cranfield took on the role of new chief executive of Equity Bank and quickly set about leading the bank into an era of growth and new products.

THE MARKET

The market in which Equity Bank operated on the lending side was that for instalment credit facilities to personal and business customers. Many firms and individuals had a need to acquire assets or services immediately for which they were not in a position to pay except in instalments over a deferred period of weeks, months or years. Such financing was usually provided on the basis of security, such as a lease agreement or a mortgage or a guaranty. A decade ago, the typical clearing house banker would have loosely referred to this market, sometimes pejoratively, as the hire purchase (HP) market or borrowing-on-the-never-never. However, the growth in this market, the very real customer needs being fulfilled, and the increasing sophistication of the financial instruments being developed for the market, particularly by recent entrants, had ensured a new identity and enviable dynamism in this market. The principal segments were:

(1) secured commercial property loans;
(2) direct personal loans—mainly unsecured;
(3) motor finance (primarily leasing for private and fleet vehicles, including commercials);
(4) plant and machinery finance—mainly leasing.

No definitive data existed on the size of this market. The Central Bank did report the instalment credit outstanding of licensed banks. However, this statistic excluded the major dynamic growth element in the latter part of the 1980s, namely leasing through non-bank leasing companies, and thus showed little or no increase during the period. Much of the market growth over the last five years had been driven by these new players, including Woodchester, Capital, Reflex, Cambridge and other smaller finance houses. Meanwhile, the traditional players, mainly subsidiaries of clearing banks, had either marked time (switching loan to leasing paper), contracted (e.g. Mercantile) or ceased trading (Credit Finance and Chartered Trust).

Exhibit 1

Irish Market for Asset Finance/Instalment Credit (O/S Balances)

	1988 (£m)		1989 (£m)	
PERSONAL				
Motor Point-of-Sale Finance	105		130	
Home Improvement Point-of-Sale Finance	40		30	
Small Appliance Point-of-Sale Finance	35		25	
Personal Loans (Direct)	470	650	500	685
COMMERCIAL/INDUSTRIAL				
Property	450		500	
Motor Fleets	150		180	
Plant & Machinery	150		180	
Block Discounting*	10		10	
Insurance Premium Finance**	30	790	30	900
TOTAL		1,440		1,585

*a trade finance instrument which facilitates a dealer, say a TV rental agent, to acquire a full stock up-front.
**e.g. employer and public liability insurance, fire insurance, etc.

Source: Compiled from various sources including Central Bank returns, registration data for new motor cars and returns from the Irish Finance Houses Association (IFHA).

Nonetheless, a reasonable estimate of market size was put at £1.5 billion (outstanding balances) in 1989 (see Exhibit 1). This market was viewed as likely to increase by about 10 per cent per year over the longer term. This estimate was based on a buoyant outlook for the economy and consumer spending; an increasing level of motor sales following seven successive years of stagnation; a reviving construction and property market; and a strong and continuing growth in leasing, which would be both supplier and demand driven.

Historically in the earlier years of the decade and prior to the burgeoning of the non-bank leasing sector, the main players and estimated market shares were:

Allied Irish Finance (AIF)	25%
Bank of Ireland Finance (BIF)	25%
Lombard & Ulster (L&U)	15%
United Dominions Trust (UDT)	10%
Bowmaker	6%
Mercantile	6%
Others	13%

Since then, a number of new competitors had entered the market, as explained above. These included Woodchester Investments, founded by Craig McKinney. This company grew out of Hamilton Leasing, an office equipment finance specialist, and subsequently acquired Bowmaker, Trinity Bank and a major insurance broker as well as a Shannon-based leasing company and a UK chain of motor dealers (Lookers). The company had pioneered an expertise in small ticket leasing—working with suppliers of computers, office equipment and so on to design leases which would help to sell these products. Put simply, Woodchester saw the potential of a leasing arrangement as a marketing tool, so-called sales-aided leasing, compared to the traditional banks, who merely viewed a lease as a tax-advantageous financial instrument where they could enjoy the capital allowances on the product leased. The firm controlled over 60 per cent of this small ticket market. Reflex Leasing majored in large ticket computer finance, including operating leases, and had recently moved into more general areas of asset leasing. Capital Leasing dealt in motor and capital equipment finance. The Cambridge Group ranged across the spectrum of asset finance. All of the above firms were quoted on the Dublin Stock Exchange. Virtually all of Woodchester's acquisitions had been for paper, i.e. bought in exchange for Woodchester's publicly quoted shares.

Initially in the early eighties, the arrival of the newcomers caused serious upset to the comfortable cartel arrangements of Irish Finance Houses Association (IFHA), which until then had a policy of minimum lending rates and maximum dealer commissions. The older companies were doubly vulnerable as they were forced in the stagnant recession years to recognise and deal with an accumulated trough of non-performing loans resulting from 'fearless lending' decisions of the late seventies. Top management switches in the big banking groups brought a new emphasis on default containment and heavily structured centralised credit control, leaving the field open to the new arrivals with their advantages of fast, decentralised decision- making, attractive intermediary incentives and as yet low or non-existent bad debt provisions. As the decade progressed, a degree of settling down occurred but the main new arrivals had become solidly entrenched and continued to search for openings and niches to develop new products.

EQUITY'S NEW DIRECTION

Up to its acquisition, Equity had been a small player in this market (1 per cent share), picking up fringe business on personal loans, bridging, insurance premium finance and some marginal secured lending. Being too limited in absolute size and branch cover to offer full floor plan or stocking plan facilities to major motor franchises, Equity was driven towards smaller, non-franchised dealers in mostly secondhand markets. Personal loan business also was poorish, involving a proportion of more suspect direct customer business. In secured lending, Equity's intermittent funding problems and higher funds cost resulted in a stop-go pattern of activities. As a consequence, the bank had no consistent presence in the market which would have kept it on the shopping list for better-quality business. Further, product range was limited. Up to June 1989, Equity had no leasing products or expertise.

The new management at Equity identified two target segments as the main focus of lending growth in the initial stages of new development: firstly, leasing of cars, trucks and plant; and secondly, secured lending on commercial property. The type of leasing first undertaken by Equity was 'full payout' leasing whereby the payments made by the lessee during the life of the lease fully cover the cost of the asset; at the end of the lease agreement, the asset is then fully owned by the customer. This was the most popular form of lease. However, the contract lease or dealer buy-back lease was also growing in popularity and Equity decided in early 1990 to enter this market also. The attraction of this form of leasing is that the regular instalment payments during the lifetime of the lease are lower than under full payout leasing. At the end of the lease agreement, the lessee has the choice to (a) pay in a lump sum the residual amount owing on the asset and thus fully own it, or (b) use the proportion of the asset he owns as a result of his payments during the lease in part payment towards a new asset—for example, a car—and the consequent new leasing arrangement. Hence, dealer buy-back leasing is also known as a 'balloon payment'.

Another leasing possibility that Equity was examining was short-term leasing facilities. This might involve, for example, a hire drive company which wished to finance a new fleet for its six-month season and then off-load the fleet at the end of the period. In terms of lending on commercial property and property-secured instruments, the company hoped to develop endowment as well as repayment mortgages. The terms for these would be up to 15 years with rates variable at a margin over the interbank base rates.

ecision- making, attractive
istent bad debt provisions.
down occurred but the main
and continued to search for

player in this market (1 per
loans, bridging, insurance
lending. Being too limited in
floor plan or stocking plan
given towards smaller, non-
Personal loan business
suspect direct customer
funding problems and
activities. As a consequence,
which would have kept it
further, product range was
products or expertise.
target segments as the main
development: firstly, leasing
on commercial property.
payout' leasing whereby
lease fully cover the cost
et is then fully owned by
. However, the contract
popularity and Equity
attraction of this form of
the lifetime of the lease
the lease agreement, the
amount owing on the
of the asset he owns as a
towards a new asset—for
ngement. Hence, dealer

ining was short-term
a hire drive company
season and then off-
lending on commercial
any hoped to develop
for these would be
interbank base rates.

In addition to the priority segments, Equity Bank planned to continue to underwrite personal loan business on a more selective basis, especially for good previous customers. It should be noted, however, that unsecured personal lending by finance houses had not grown over the past decade. The personal borrower had been largely taken out of the finance house market by aggressive competition from credit unions, the Dublin and Cork Trustee Savings Bank (TSB), and the main clearing banks. The credit unions had 500 branches throughout Ireland run on a voluntary basis with free deposits and low interest rates (*circa* 13% APR on lending). TSB had built a large branch network and captured high numbers of previously unbanked customers, while in recent years the principal clearing banks had homed in on existing good customers with aggressive retention programmes, frequently at the expense of their own subsidiary finance houses.

However, one type of unsecured personal lending which was attractive was Professional Practice Loans (PPL). These were loans to professionals and members of recognised professional bodies, for instance, accountants, doctors, architects, engineers, solicitors, and dentists. The loan could be used, for example, for the purchase of practice premises, the establishment of working capital, the purchase of the share of a retiring partner, or the restructuring of existing loan arrangements. Because of the professional status of the individuals involved, such loans usually had very low default levels. Indeed, in the case of an accountant, should he default on a loan, he would not be able to continue practising as an accountant. Such loans were sometimes marketed in association with life assurance companies as they normally involved a life insurance dimension.

Equity Bank also had a significant presence in the financing of insurance premiums (employer and public liability insurance, fire insurance and so on) and audit fees for commercial customers. Equity's financial assistance was sought here as such insurance premiums and audit fees involved very high one-off payments which could be more usefully structured on an instalment payment basis. While not seen as a major growth area in the long term, it was planned to maintain the bank's existing customer/intermediary base in this area in the short term and to extend loan periods where possible to achieve an almost continuous renewal of facilities.

There were two other areas where management at Equity saw possibilities for business and product development. Credit/loan insurance involved the borrower taking out an instalment protection plan which would give life, accident, redundancy and sickness benefit during the life of the loan. Equity would obviously enjoy a commission on such insurance products. Affiliate Group Schemes also represented a growing market opportunity. Such schemes involved preferential treatment and discounted prices over a range of financial products to members of a union, professional groups, staff associations, large enterprises and so on (Appendix A contains an example of one such affiliate group scheme). Finally, another source of income for the bank was commitment fees or handling fees for certain types of loan transaction.

1990 PLAN AND OUT-TURN

Exhibit 2 details the breakdown of Equity Bank's planned advances for 1990 (£22.4 million). Details of margins are included in Exhibit 3, while Exhibit 4 lists the basic assumptions underpinning the plan. Equity's new direction got off to a good start. During 1990, many of the targets in terms of products, customers and growth were met. Exhibits 5 and 6 give relevant financial data on the out-turn of 1990. At the end of 1990, Equity Bank had assets in the region of £33 million.

Exhibit 2

Equity Bank 1990 Planned Advances

		£m
LEASING		
Joint venture	5.0	
Other deals—9 @ £100,000 p.a.	0.9	
Cambridge	1.3	
Other broker/direct	3.7	10.9
SECURED (PROPERTY)		5.5
PERSONAL		
Unsecured		2.5
PPL		1.5
INSURANCE PREMIUM/AUDIT		2.0
TOTAL		£22.4m

QUALITY OF BUSINESS

Put simply, the business of a bank is to make a profit on the money it lends. The money it lends constitutes its 'raw material'. The source of this raw material is primarily (a) money deposited by customers in the bank, and (b) money borrowed by the bank itself from other banks on the so-called inter-bank market. The difference between the net cost of this raw material and a bank's income through interest charges provides the gross margin. Typically,

...ndix A contains an example ...another source of income for ...fees for certain types of loan

...Bank's planned advances for ...included in Exhibit 3, while ...ning the plan. Equity's new ...many of the targets in terms ...Exhibits 5 and 6 give relevant ...end of 1990, Equity Bank had

...Advances

£m

10.9

5.5

2.5
1.5

2.0

£22.4m

...fit on the money it lends. ...The source of this raw ...mers in the bank, and (b) ...ks on the so-called inter- ...of this raw material and a ...gross margin. Typically,

Exhibit 3

Margin Projections (Net of Commission)

LEASING		
Joint venture		4% over COF
Other deals		4% over COF
Cambridge		4% over COF
Other broker/direct		5% over COF
SECURED (PROPERTY)		
	10 loans @ £250,000 = £2.5m	2.5% over COF
	15 loans @ £120,000 = £1.8m*	3.5% over COF
	15 loans @ £80,000 = £1.2m*	4.5% over COF
PERSONAL		
Unsecured		6% over COF
PPL		3.5% over COF
INSURANCE PREMIUM/AUDIT		5% over COF

*£2m of advances less than £250,000 attract 1% commitment fee = £20,000.

this margin is of the order of 4 per cent (see Exhibit 3 in the case of Equity Bank). Again typically, a bank's operating expenses or overheads subsume half of this margin (2 per cent), leaving a 2 per cent profit before bad debt provision and tax. This is a narrow margin which can be indented severely if a bank experiences a major loan default. Minimising loan default is a primary concern of any banker. Insuring the creditworthiness of potential borrowers, both personal and commercial—the 'quality of business' from the bank's perspective—is crucial. In this regard, banks use the three Cs—character, capacity and capital. The type of character represents an assessment of the likely disposition of the borrower, either individual or company, to repay a loan; willingness to repay can only be predicted, usually on the basis of past performance, as evidenced by credit bureaux, bank reports, credit agency reports, and so on. Capacity indicates the source of repayment, the evidence of ability to service the repayment over the required period at the proposed rate of interest. Finally, a borrower's capital represents a level of security to the lender; the bank must consider what security, if any, is offered to underpin the loan and what is the value of the security evidenced by objective valuation.

This issue of quality of business was a primary preoccupation of the management at Equity Bank. Since the change of ownership, the bank had concentrated on becoming a different type of operation in a number of ways.

Exhibit 4

Assumptions in 1990 Plan

1. Personnel	5 sales professionals (Dublin 3, Limerick 2) in addition to HOM (1 extra person) from Jan. 1 Internal sales/loan administrator Improved and standardised underwriting procedures Possibly one additional experienced underwriter	
2. Products	Contract (buy-back) Lease Endowment Mortgage 'Now' A/C with cheque-book aimed at solicitors (Trustee Status required)	
3. Plan sensitivity	Possible shortfall of £1.5m in personal loan advances (down from £4m to £2.5m) due to (possible) underperformance of PPL (–£0.5m) and stricter quality vetting of personal loan proposals (–£1m) Could be offset by gaining AA plan	
4. Marketing support spend	Print (brochures, leaflets)	£25,000
	Advertising	£25,000
	PR & Sponsorship	£25,000
	Incentives (customer)	£10,000
	Sundry	£15,000
		£100,000
5. Decision times	Maintenance of current flexibility and speed of case decisions, especially on property cases	
6. Cost base	Containment of costs (payroll and default) as a continuing means of achieving keen pricing for quality business	

It was targeting business customers rather than personal customers. Importantly, it was seeking larger-size loans and fewer of them, and aiming at a higher quality of business with lower default levels. If a major loan default were looming, Equity, like other banks, had the last resort of sending in a receiver. In some circumstances, a receiver might conceivably rescue a business and ensure repayment of the loan; more likely, he would simply realise the assets of the business and ensure that as much as possible of the money owing to the bank was repaid.

Plan

Limerick 2) in
) from Jan. 1

writing procedures
ced underwriter

ed at solicitors

sonal loan
5m) due to (possible)
m) and stricter
proposals (–£1m)
plan

£25,000
£25,000
£25,000
£10,000
£15,000
£100,000

and speed of case
cases

default) as a
pricing for

onal customers. Impor- them, and aiming at a If a major loan default resort of sending in a conceivably rescue a ly, he would simply uch as possible of the

Exhibit 5

Equity Bank Profit & Loss Account 1990

			£'000
INCOME (from)			
Loans			2,047
Bridging			393
Hire purchase			37
Insurance/audit			130
Leasing			1,203
Deposit			143
Government stocks			205
Commitment fees			22
Ashbourne			6
Other			3
TOTAL			4,189
COST OF FUNDS			
Deposits		1,331	
Interbank		920	
Bank charges		13	
TOTAL			(2,264)
CONTRIBUTION			1,925
LESS:	General	628	
	Salaries	511	
	Consultants' fees	43	
	Depreciation	42	
			(1,224)
Bad debt provision			(224)
Profit before tax			477
Extraordinary item			101
TOTAL PROFIT BEFORE TAX			578

Note: For confidential purposes, these figures have been disguised.

Exhibit 6

Equity Bank Balance Sheet 1990

			£'000
Interbank deposits			207
Central Bank			1,511
Government stocks			2,001
Other assets			333
			4,052
Bridging			1,720
Term loans			23,405
Insurance/audit			2,201
Hire purchase			213
Leasing			9,322
			36,861
Less:	Deferred charges		(6,753)
	Provisions		(1,456)
			28,652
Fixed assets			280
Susp.			93
TOTAL			33,077
LESS:	Due to depositors	14,328	
	Interbank	13,629	
	Bank O/D	284	
	Insurance/audit	20	
	General liabilities	186	
			(28,447)
			4,630
REPRESENTED BY:			
Share capital			3,465
Capital reserves			–
Revenue reserves			587
Profit & loss account			578
			4,630

Note: In contrast to standard balance sheet procedures, a bank arranges its balance sheet in descending order of liquidity.

...ce Sheet 1990

		£'000
		207
		1,511
		2,001
		333
		4,052
		1,720
		23,405
		2,201
		213
		9,322
		36,861
		(6,753)
		(1,456)
		28,652
		280
		93
		33,077
	14,328	
	13,629	
	284	
	20	
	186	
		(28,447)
		4,630
		3,465
		–
		587
		578
		4,630

...a bank arranges its balance sheet in

ORGANISATIONAL DEVELOPMENT

On taking over the reins at Equity Bank, one of John Cranfield's first tasks was to revamp the management structure and develop the manpower resources of the institution. Two key appointments were the head of marketing and sales operations and the head of finance. The three senior managers of Equity Bank are profiled below and Exhibit 7 outlines the organisational structure of the bank in early 1991.

JOHN CRANFIELD, CHIEF EXECUTIVE

Cranfield was appointed chief executive of Equity Bank in June 1989. A career banker in his early forties, he had spent ten years of his career with Bank of Ireland, mainly involved in market and business development in the UK. He then joined Trustee Savings Bank in a senior executive position and played a major role in developing the branch network of that bank in the late seventies and early eighties. From 1988, he had been working in financial consultancy based in Dublin.

NOEL HYNES, HEAD OF MARKETING AND SALES OPERATIONS

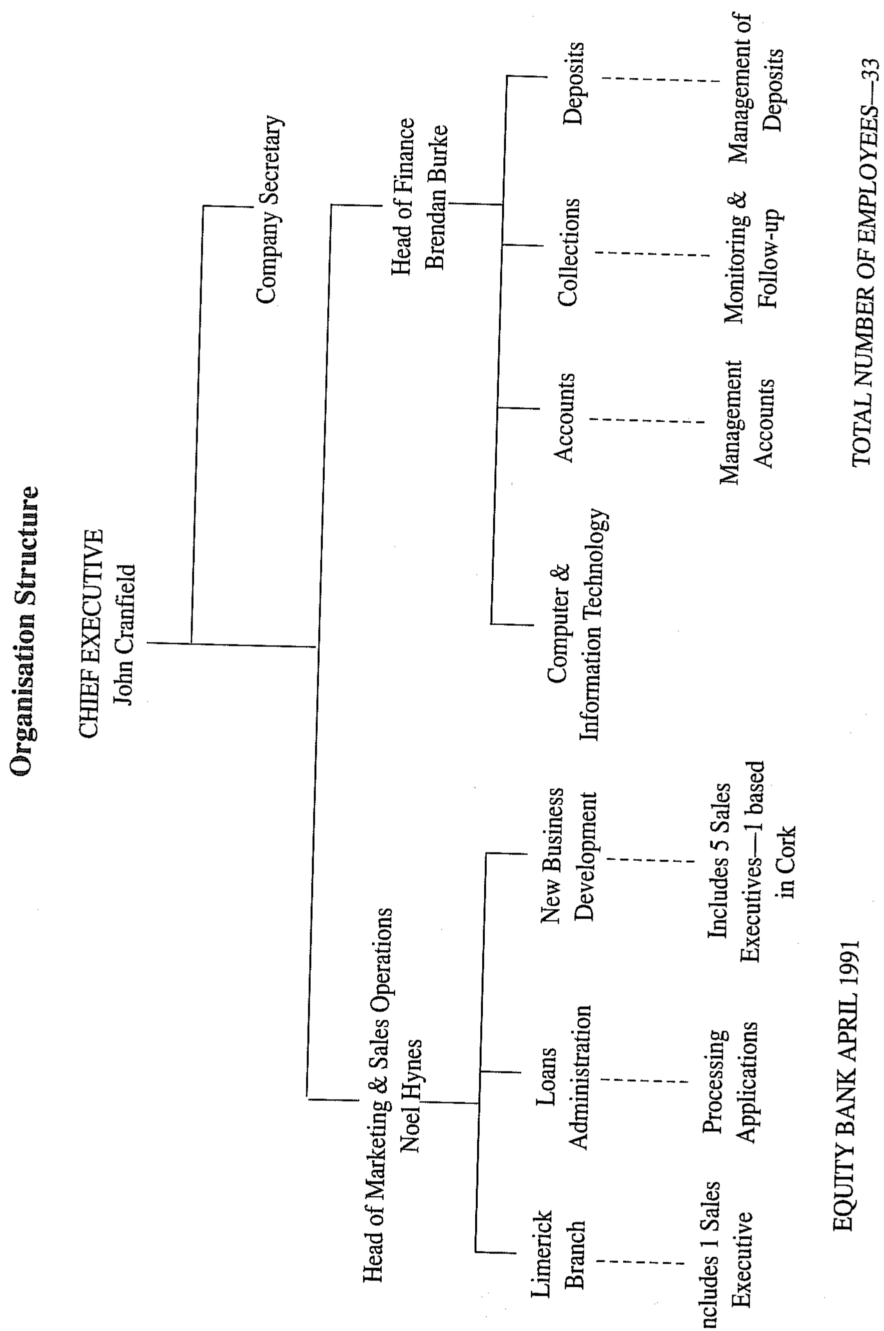
In his mid forties, Hynes joined Equity Bank in the summer of 1989, having worked in a variety of marketing roles in his career to date. For the previous seven years, he had been sales director of UDT Bank. This bank specialised in instalment credit for the motor trade and in term facilities for property. Prior to UDT, he was client services director with CDP Advertising and he had also spent a period as marketing director of the *Sunday Tribune*.

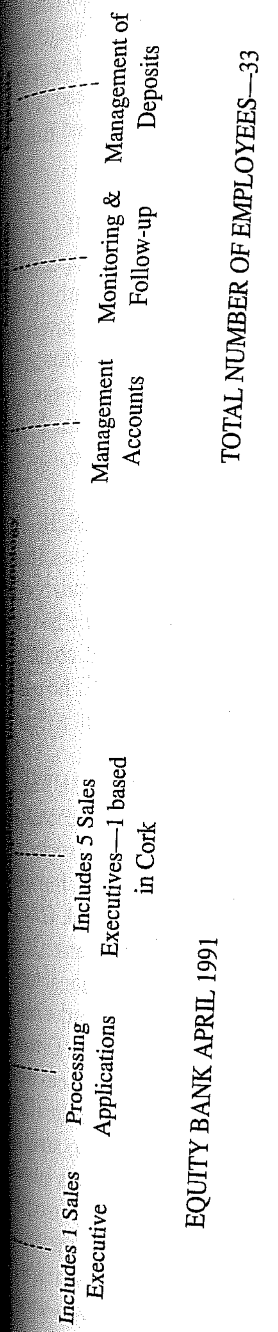
BRENDAN BURKE, HEAD OF FINANCE

A chartered accountant in his late thirties, Burke joined Equity in September 1990, having started his career at Forward Trust, the finance house subsidiary of what was formerly the Northern Bank Group, in turn owned by the Midland Bank Group. In 1988, the National Australian Bank acquired the Northern Bank Group from Midland and changed the name of Forward Trust to National Irish Investment Bank (NIIB). The two years prior to coming to Equity Burke had spent as financial controller in a treasury management capacity with Dresdner Bank in Dublin. This West German bank was one of the first overseas banks to get a licence in the Custom House Docks Financial Services Centre (CHDFSC).

In order to assist in the manpower planning process, a formal management inventory was introduced in the bank during 1990. This was initially done in relation to personnel at managerial level, and then at each grade down the line, under the following headings: performance inadequate; performance satisfactory; ready for promotion; potential for special development. This inventory was drawn up by the head of a particular section using the existing

Exhibit 7


Organisation Structure
CHIEF EXECUTIVE
John Cranfield
Company Secretary
Head of Finance
Brendan Burke
Computer &
Information Technology
Accounts
Management
Accounts
Collections
Monitoring &
Follow-up
Deposits
Management of
Deposits
Head of Marketing & Sales Operations
Noel Hynes
Limerick
Branch
ncludes 1 Sales
Executive
Loans
Administration
Processing
Applications
New Business
Development
Includes 5 Sales
Executives—1 based
in Cork
EQUITY BANK APRIL 1991
TOTAL NUMBER OF EMPLOYEES—33



data bank of information where available and by way of interview. The placing of each individual was confirmed with the chief executive. This inventory could then be used as a basis for development and grooming for future development and promotional positioning of suitable staff. This would involve both internal and external training in order that the staff members involved gained the necessary experience.

A staff appraisal system was also introduced. In broad outline, this involved the head of function, as appropriate, setting objectives at the beginning of the year for each staff member under his jurisdiction. These objectives varied from person to person depending on the responsibility and type of work involved. The objectives were discussed at the beginning of the year between the two parties, progress was monitored during the year, and at the end of a twelve-month period an overall assessment took place. It was envisaged that this system would allow room for the flexibility required for setting different objectives for different personnel depending on their strengths, location and so on. As with any appraisal system, open dialogue between management and staff member was encouraged actively.

The bulk of Equity Bank's employees were in their twenties. While this brought enthusiasm and ambition to activities, it also meant that there was a serious deficiency in relation to experience throughout the bank generally. This lack of experience was a concern to senior management and it felt it would have to focus considerable attention on the matter in the coming years. The staff inventory would identify developmental needs and the training resources of NWS Bank would likely be available.

In general, it was senior management's intention to try to keep staff numbers around their current level. The desire was for a lean, skilled and flexible staff structure in order to keep manpower overheads at a minimum. It was hoped to strengthen the experience level within the bank without necessarily increasing the overall staff numbers. It was seen as current bank policy that depending on the experience level required, further recruitment would be done by way of temporary bank assistant employment or on a contract basis. There was no union or formalised staff association in the bank and it was senior management's policy to maintain this status quo.

DISTRIBUTION NETWORK

Equity Bank operated from its head office at Ballsbridge, Dublin and from a branch in Limerick. The bank's selling proposition, based on competitive pricing underpinned by low overheads and fast case decisions, made branch expansion inappropriate as the root for distribution of its products. Indeed, in an already over-branched market, branches were in the process of being closed down as uneconomic by some of the longer-established competitors, notably Mercantile. It was not the bank's intention to succeed by direct person-to-person contact with large numbers of individual customers for small borrowing amounts. The bank's current business strategy involved growing its business without a consequent expansion in staff numbers or work locations. Thus, its distribution network used a number of intermediary channels to source business proposals. These included:

Accountants (on behalf of their clients)
Solicitors
Insurance brokers
Auctioneers/estate agents
Dealers (e.g. car, truck, forklift dealers)
Distributors/import agents (e.g. computer hardware and software distributors

The common denominator of all these groups was that they required bank facilities to be available to enable them to service their customers either in financing a business expansion, completing a property transaction, or acquiring new equipment or transport for use in the business. Dealers and distributors, indeed, used the potential lease availability from a lending institution as a positive sales aid. Such dealers and distributors also normally enjoyed a commission on leases arranged. Thus, in addition to meeting face to face with the ultimate bank customer (the borrower), a considerable amount of time was spent by Equity Bank marketing personnel, including the five sales executives, in developing good working relationships with the intermediaries from the above groupings who might effect an introduction to ultimate customers or in some other way influence the direction of new business proposals in favour of the bank. In fact, it was estimated that up to 70 per cent of the bank's business was generated by these intermediary channels. Indeed, the tradition in leasing was that in nine out of ten cases, the lender did not meet the final client.

In prospecting for new business, the bank's sales executives might typically use a listing of accountants who had, for instance, recently attended a financial services conference, and then systematically ring around in a telesales campaign in order to establish awareness of Equity and its product offerings. Retaining and nurturing existing customers was, of course, also crucially important; cross-selling was also encouraged, i.e. trying to sell the new products the bank was developing to its existing customer base. In all of this process the client prospect card—a card which summarised the key information on the (potential) bank/customer relationship—was an indispensable aid to the sales executive.

PROMOTION

Under its new regime, Equity was committed to promote actively its name and services offered. Such advertising and marketing communication had to

of individual customers for
business strategy involved
expansion in staff numbers or
used a number of intermediary
included:

hardware and software

was that they required bank
their customers either in
transaction, or acquiring
Dealers and distributors,
a lending institution as a
also normally enjoyed a
meeting face to face with
amount of time was
the five sales executives,
the intermediaries from the
to ultimate customers or in
proposals in favour of
cent of the bank's business
the tradition in leasing
meet the final client.
sales executives might
instance, recently attended
ring around in a
of Equity and its product
was, of course, also
i.e. trying to sell the
customer base. In all
summarised the key
—was an indis-

promote actively its name
communication had to

be highly selective in order to reach its target audience. In early 1991, the bank was seeking to give this advertising a new thrust and sought the advice of its PR/advertising agency. In response, the agency developed the following advertising strategy rationale:

'Following our meeting on 1st February, 1990 we were asked to develop two press advertisements—one promoting loans and one promoting deposits. In addition, we were asked to look at the development of a poster campaign. When we began this task it was clear that Equity Bank does not offer any banking service that is not available in most other banks in Ireland and, in fact, the range of services from Equity would not be as extensive as those available, certainly from the four majors.

'There are two aspects to the Equity operation in Ireland that give you, or will give you, a distinct image and identity among the different target audiences that you wish to reach and influence. First, you are part of the Bank of Scotland which, in your own words, means Equity Bank is built on the firmest of foundations. Second, despite being part of such a large financial organisation, Equity is a uniquely compact bank that can provide a highly personalised service. From an advertising point of view, these two issues will play an important role, but you must resist the temptation to communicate them in a way that is dull and unimaginative.

'Your advertising budget is small and so must work harder. You have fewer opportunities to talk to people and the smaller size of advertisement means you must create immediate impact. You must come across as different and, perhaps, unique. We have developed a theme for Equity which reflects this need. The theme is: "ALL BANKS ARE NOT EQUAL".

'We believe that this line helps focus attention on Equity as a bank that is different and helps draw attention to those areas of your operation that you want to promote. It is a theme line which suggests that Equity has a distinct competitive advantage. This is the conclusion that we want people to draw, and it helps us establish Equity as somehow unique in the banking industry.

'In planning an approach for the deposit and lending advertisements, we decided that if we listed the services you offer, we run the risk of (a) being very boring and (b) being no different from any other bank. Our approach is to tell your audience what you don't do and this allows us to be interesting, creative and different. We think the approach works very well and will make your advertising considerably more effective and successful.'

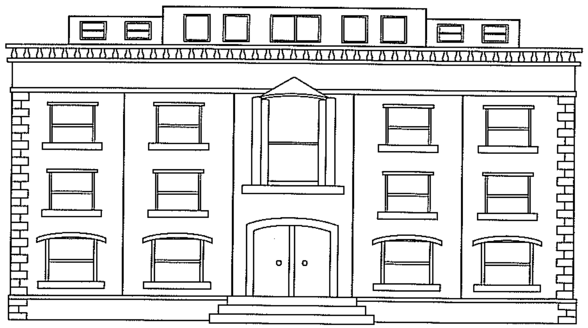
Exhibit 8 provides an illustration of one of these press advertisements run in the *Sunday Tribune* during March 1991. Equity Bank had also recently developed a new brochure advertising itself and its product range. Exhibit 9 illustrates an extract from this. Furthermore, Equity undertook a limited amount of corporate sponsorship, for instance, of some Leinster Union rugby football matches.

Exhibit 8

Press Advertisement

When it comes to holidays, don't ask us for a break.

Sorry—if you want money to go on holiday, may we recommend another bank. Equity Bank is a commercial bank offering a professional service to business practices and partnerships: arranging Working Capital, Commercial Mortgages, Practitioners' Loans, Management Buyouts, etc. Our financial strength and professional standing are reflected in our membership of the Bank of Scotland Group. So if you would like to talk to the professionals about your corporate finances requirements, call xxxxx at Equity Bank.



EQUITY
BANK

All Banks are not equal
85 Pembroke Road, Ballsbridge, Dublin 4. Ph: 685199

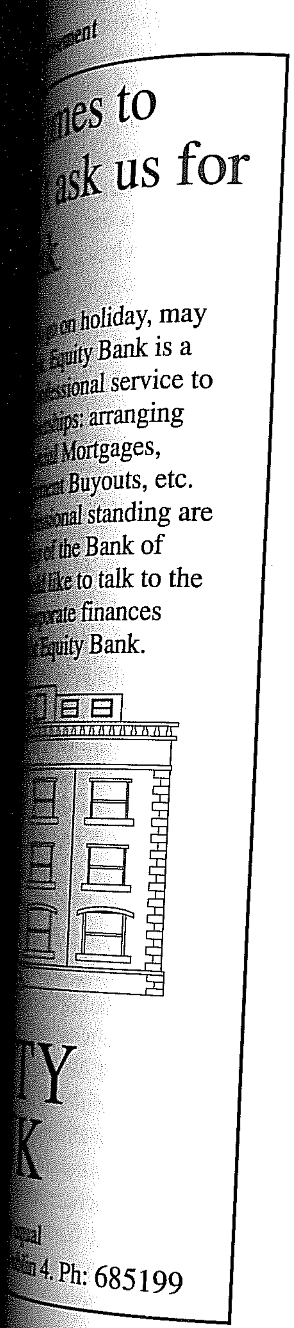


Exhibit 9

Extracts from Equity Brochure

OUR PHILOSOPHY

We take banking seriously, and we believe in spending time with our clients to discover their precise requirements. That's why we take time to talk to our clients directly in order to establish at the outset their particular needs.

At Equity Bank we have a team of professionals to help you find an imaginative solution to your requirement for:

—New Project Finance
—Management Buyout
—Corporate Financial Restructuring with Term Facilities
—Working Capital
—Asset Finance
—Personal Loans
—Consumer Finance

Equity Bank Limited
Equity House
85 Pembroke Road
Ballsbridge
Dublin 4

CORPORATE FINANCE FACILITIES

These are just some of the facilities we offer our clients:

Term Loans	From 5–20 years
Revolving Loans	Including 'evergreen' facility
Commercial Mortgages	Either Repayment or Endowment/Mortgage backed
Professional Practitioners' Loans	Specially tailored to suit practice finance
Leasing	Medium/Large Ticket, up to 7-year terms
Bank Guarantees	
Working Capital Facilities	

At Equity Bank we can offer flexible terms and repayment patterns planned to suit our client's requirements for the following projects:

—Property Investment
—Public Houses/Hotels
—Shops and Offices
—Factories & Warehousing
—Industrial Projects
—Plant & Equipment
—Management Buyouts
—Partnership Share Purchase
—Stock Funding

1991 AND BEYOND

Equity Bank's approach to longer-term planning reflected the prevalent culture in NWS Bank plc. It focused on a detailed working plan for the year ahead and its bottom line. Longer-term ideas and options were on the table, discussed and teased out; however, the result was not a highly structured and detailed five-year plan but rather a setting down of possible new business scenarios that might quickly exploit emerging opportunities. Noel Hynes, head of marketing and sales operations, commented: 'I remember in a previous organisation I worked for there was a great emphasis on detailed and highly structured long-term plans with three-year and five-year projections. It certainly was a good discipline, but it took a hell of a lot of time and effort and I wonder in retrospect if it didn't lead to a certain inflexibility and failure to really run with the year ahead.'

For the year 1991 Equity budgeted for a total income from its operations of £5.7 million, a profit before tax of £1.0 million and assets of £41.7 million. As it stood in early 1991, the bank was actively looking at a range of product possibilities not currently on offer. These included a range of trade finance instruments and other financial services.

Foreign exchange facilities—This would include the provision of loans in any one of a range of foreign currencies, for instance, US dollars, Deutschmarks, Swiss francs, sterling, for purposes such as property or equipment finance, aircraft leasing and so on. The attraction to the borrower generally was the availability of lower interest rates on foreign currencies.

Letter of credit (LC) facilities—An LC was a financing instrument used in foreign trade. For instance, an Irish importer who wished to import goods from, say, Spain would arrange for a letter of credit from his bank in Ireland to the Spanish supplier which guaranteed payment for the goods. The LC was thus a bank guarantee of payment in foreign currency to a foreign supplier.

Factoring—Factoring of the book debts (and debtors) of a business involved the sale of the debts to a third party to be collected by that third party as principal and not agent. The sale of such debts would be for an amount less than the nominal value, the difference being similar to a penalty interest charge, though usually somewhat higher. The effect of the sale was that the seller freed up some working capital by changing debtors into cash and not incurring the risk that some debts would not be collected.

Invoice discounting—This was similar to factoring except that instead of selling the debtor book, the business gave a financial institution a legal charge over the debts—in much the same way as a bank took a mortgage over a building as security for a loan advanced for the purchase of that property. The financial institution enjoyed a commission on the subsequent debts collected.

…nning reflected the prevalent …ailed working plan for the year …s and options were on the table, …was not a highly structured and …down of possible new business …ing opportunities. Noel Hynes, …ented: 'I remember in a previous …emphasis on detailed and highly …r and five-year projections. It …hell of a lot of time and effort …d to a certain inflexibility and

…al income from its operations …lion and assets of £41.7 million. …y looking at a range of product …cluded a range of trade finance

…e the provision of loans in any …ce, US dollars, Deutschmarks, …operty or equipment finance, …e borrower generally was the …currencies.

…financing instrument used in …who wished to import goods …credit from his bank in Ireland …ent for the goods. The LC was …rrency to a foreign supplier.

…btors) of a business involved …llected by that third party as …would be for an amount less …similar to a penalty interest …effect of the sale was that the …ng debtors into cash and not …collected.

…ring except that instead of …cial institution a legal charge …ank took a mortgage over a …rchase of that property. The …subsequent debts collected.

Confirming—This was a service provided at the opposite end of a foreign trade transaction whereby a bank in the country importing the goods guaranteed payment of the amount due in a currency acceptable to the seller.

Stockbroking—This involved dealing in the purchase and sale of securities in return for a commission. A number of smaller stockbrokers had been taken over by banks in recent years.

Insurance broking—Increasingly, insurance and bank products were tending to be sold together, for example, loans for property purchase linked to an endowment insurance, house or vehicle insurance in association with loan/lease finance, and term loan assurance on the life of the borrower assigned to the bank as fall-back security.

Domestic mortgages—Currently Equity Bank did not compete with building societies or clearing banks in the residential mortgage market. However, this was a relatively large segment accounting for upwards of £1 billion in annual advances and could conceivably be of interest in the future.

Credit cards—These were now issued by all clearing banks (Visa, Access) and some smaller institutions. Interest charges to the customer were high, but so traditionally were the bad debts. However, this was a growing area of unsecured lending to borrowers.

Budget accounts—Half-way between an overdraft limit and a credit card, these were run by retail stores and usually worked on the basis of a fixed credit limit or a multiple of an agreed monthly repayment. Interest rates tended to be higher than credit cards and transaction values were small so that unless the system was fully automated with very high volumes, profitability was eroded by operating costs and default levels.

Equity Bank was also looking at a range of new possibilities for expansion of distribution and these included:

* New branch openings
* Appointment of local agents
* Acquisition of other banks with a branch network
* Acquisition of non-bank institutions, for example, a building society
* Joint ventures with one or more of the above or other interested parties.

Indeed, Equity Bank had undertaken just such a joint venture in May 1990, when it purchased a 50 per cent stake in Gatehouse Leasing Limited, a firm which specialised in the provision of leasing finance for motor vehicles, plant and other industrial/business equipment. Gatehouse Leasing had been formed as a small leasing company by a number of independent car and vehicle dealers and had grown essentially as far as it could without taking on board a partner with more capital available. Thus, the coming together of Equity and Gatehouse represented a mutually advantageous joint venture. Equity was also considering other joint ventures, such as participation in a syndicate or consortium to construct a leisure complex where the bank would be a lender and/or a limited equity holder. (Appendix A gives an example of a joint venture in another context.)

JOHN CRANFIELD'S VIEWS

In early March 1991, the case writer interviewed John Cranfield, chief executive of Equity Bank, about his views in regard to the future development of the bank. Some extracts from that interview follow.

'Equity has not been seen as a real player. It was a small private bank. I want to make it a serious contender for business in the marketplace. Its parentage is important here. Remember, AIB and BOI together come to only 80 per cent of the size of the Bank of Scotland. We've got to get that message across.

'In our advertising, in promoting ourselves, I want to say what we're not. We're not a high street or consumer bank. We don't offer cheque-books. Indeed, in many ways the high street bank just provides a social service and there's not much profit in it. I would like Equity to be known as the place to come for a professional and corporate loan.

'We will have to market ourselves. I want to see Equity develop a separate and clear identity in the Irish business market. No, I don't want Bank of Scotland signs hanging outside our door. We will draw on Group resources but not too heavily. For instance, we are developing some new technology in the bank at the moment and we are going it alone rather than using some existing NWS systems. I foresee a paced growth at Equity and our marketing expenditure will reflect this. We're going to match our ambitions to our resources. For instance, just yesterday I was interviewing for an experienced lender.

'In terms of acquisition, we will keep an open mind. If it suits, yes, but we're not going to pay over the odds. No, I think Bank of Scotland itself would have a limited interest in the Irish market. It's small in an international context. But it might have an interest in the Custom House Docks Financial Services Centre.'

APPENDIX A

Extracts from chairman's statement in NWS Bank plc report and accounts 1989

The Bank's Field Divisions form the backbone of the NWS operation. Today, an expanding network of almost 90 branches across the UK provides a broad range of financial services within the private and business sectors. Specialising in personal and

coming together of Equity
geous joint venture. Equity
participation in a syndicate
the bank would be a lender
an example of a joint venture

wed John Cranfield, chief
to the future development
follow.

a small private bank. I want
marketplace. Its parentage is
come to only 80 per cent of
that message across.

want to say what we're not.
don't offer cheque-books.
provides a social service and
to be known as the place to

Equity develop a separate
No, I don't want Bank of
draw on Group resources but
some new technology in the
than using some existing
and our marketing expen-
ambitions to our resources.
an experienced lender.
mind. If it suits, yes, but
Bank of Scotland itself
It's small in an inter-
the Custom House Docks

Bank plc report and

NWS operation. Today, an
UK provides a broad range of
Specialising in personal and

consumer packages, in small business, commercial loans and contract hire, NWS Field staff are trained to place particular emphasis on the quality of personal service they offer and their in-depth knowledge of the community each branch serves. The Field Division was restructured during the year with the three operating Divisions—Northern, Central and London & South—becoming profit centres in their own right, and being given a degree of autonomy, particularly in taking marketing decisions appropriate to their own needs. Strong growth in all areas, particularly in the commercial sector, was a feature of the year.

The final part of the streamlining of Renault Financial Services was completed and the Renault dealer network is now serviced by ten specialist branches providing a dedicated service throughout the United Kingdom. Our policy of providing finance to the local community continued with the opening of a further four NWS branches, which now brings the number of branches to almost ninety.

IBOS Finance, our Corporate Division, had a particularly exciting year and enhanced its reputation as a leading lessor in the industry by joining with other banks and city financial concerns in a number of syndicated leasing arrangements. Record levels of new leasing business were achieved and among several substantial facilities were the leasing of equipment for the Nissan car plant in Sunderland and participation in a banking syndicate to finance aircraft for British Airways. Car fleet finance was also a major growth area for the Division.

Central Financial Services which provides a range of financial facilities directly from Chester successfully linked with two major organisations during the year. A joint venture with the NFU Mutual Insurance Society to provide for the financial needs of the NFU members throughout the United Kingdom commenced in the autumn and early signs are encouraging with levels of business exceeding expectations. Siemens Leasing which is a new venture with the UK subsidiary of the West German electronics company Siemens, has been formed to provide financial and leasing facilities to Siemens' customers, and has also made a promising start. AA Financial Services, the joint venture with the Automobile Association, continued to make good progress during the year and has contributed satisfactory results.

Questions

1. In your view did the acquisition of Equity Bank make sound commercial sense for the parties involved?
2. Do you see evidence of a financial services revolution? What is the essence of a bank like Equity's business?
3. Comment on Equity's new direction and how well it is pursuing it.
4. What do you think of the bank's organisational development?
5. Is Equity Bank on the correct road for the future? Make recommendations for the future development of the bank over the next one to three years and indicate how these might be implemented.
6. How might the possibility of a more recessionary economic environment affect Equity?